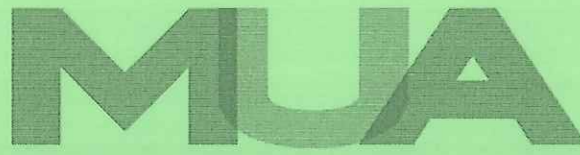


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

INS414: INSURER OPERATION AND REGULATION

DATE: 10TH AUGUST 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided**

QUESTION ONE

Read the case study below very carefully and answer the questions that follow

COTTON SPORTS WEAR

- a) Cotton sports wear I a company that specializes in the manufacturing of a range of sport wear. A fortnight ago the premises of the company were gutted down by fire. At the time of the loss the factory was aid to be underinsured and subsequent investigations have revealed that a fault power cable caused the fire (thereby implicating KPLC as responsible for the fire). Cotton sports have duly logged the claim with its insurers, madson as well as with KPLC seeking indemnity from both. As the claim manager with madson, advice cotton sports and KPLC on their rights and obligations and how you will settle the claim.

(15 marks)

- b) Establish the factors that extend the operation of the principle of indemnity

(10 marks)

QUESTION TWO

Explain how the following methods of reinsurance works

- a) Facultative reinsurance
- b) Excess loss of treaty
- c) quota share treaty

(15 marks)

QUESTION THREE

The following balances were extracted from the books of All Peoples Assurance Co. Ltd:

| | |
|-------------------------------------|-----------|
| Life Assurance fund | 1,470,562 |
| Claims: by death | 76,980 |
| : by maturity | 56,420 |
| Premiums | 210,572 |
| Expenses of management | 19,890 |
| Commissions | 26,541 |
| Consideration for annuities granted | 10,620 |
| Interest, dividends, and rent | 52,461 |
| Income tax on these (paid) | 3,060 |
| Surrenders | 21,860 |
| Annuities | 29,420 |
| Bonus paid in cash | 9,450 |
| Bonus utilized in reduction of | |
| Premium | 2,500 |
| Preliminary expenses | 600 |
| Claims admitted but unpaid at | |
| Year end | 80,034 |
| Annuities payable | 22,380 |
| Paid up share capital | 400,000 |
| Government securities | 1,490,890 |
| Sundry assets | 509,110 |
| Fines for revising lapsed policies | 92 |

Required:

- i. Prepare a revenue account. (8 marks)
- ii. balance sheet (7 marks)

After taking into account the following:

- a) Claims covered under reinsurance - Sh10,000
 - b) Further claims intimated - Sh8,000
 - c) Further bonus utilised in reduction of premium - Sh1,500
 - d) Interest accrued - Sh15,400
 - e) Premiums outstanding - Sh7,400
- } Claims by
} death

QUESTION FOUR

Briefly discuss the functions of reinsurance in general and how it has impacted the Kenya insurance sector (15 marks)

QUESTION FIVE

Discuss new risk exposures that have arisen in the last decade which are increasingly challenging the scope of conventional insurance practice? How should the insurance industry cope with these new challenges (15 marks)

QUESTION SIX

Mr Okoth is a fresh graduate with Bcom (insurance). He is on attachment in your company and has approached you to know how manage claims. As the claim manager advise him on the process of claim administration (15 marks)